Lender Preference, Borrower Market Power, and the Effect of RRP*

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FULL DRAFT COMING SOON

Abstract

Lender's preference for distributed portfolio gives borrower market power in the Triparty repo market. I characterize the equilibrium price setting and quantity distribution by explicitly modeling lender's concern for portfolio composition. I then ask two questions. First, how does borrower's market power depend on lender's portfolio preference. Second, what would have been the price and quantity of repo funding if the Reverse Repo Facility were not available between 2014 and 2017, when the Federal Reserve first raised rates post the Great Financial Crisis. Answers to these questions shed light on sources of financial intermediary's market power and help evaluate the usefulness of RRP, a new monetary policy tool that is the hallmark of an abundant reserve regime.

*I'm grateful for the invaluable guidance from my advisors Arvind Krishnamurthy, Ben Hébert, and Darrell Duffie. I thank Juliane Begenau, Jonathan Berk, Greg Buchak, Stefan Huber, Hanno Lustig, Claudia Robles-Garcia, Ali Yurukoglu, and Jeff Zwiebel for many helpful discussions. All remaining errors are my own.

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